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MCI WORLDCOM

Chuck Goldfarb
Director
Law and Public Policy

1801 Pennsylvania Avenue, NW
Washington, DC 20006
202 887 2199
Fax 202 887 3070
chuck.golfarb@wcom.com

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

June 21, 2000

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Ex Parte* Submission in CC Docket No. 96-98

Dear Ms. Salas:

Because of WorldCom's unique position as the largest facilities-based competitive local exchange carrier (CLEC), with substantial market experience, Commission staff has asked WorldCom to present information on the size, product requirements, and geographic characteristics of the local business customers WorldCom serves -- and those it is not able to serve -- in those MSAs where it has deployed its own switch and fiber network. Staff has requested this market information to help resolve, on reconsideration, issues involving the parameters of the exception to the requirement that ILECs provide unbundled switching.[1] Under the exception created in the UNE Remand Order, an ILEC does not have to provide unbundled switching to a CLEC serving a customer with four or more lines located in density zone 1 in the top 50 MSAs, if the ILEC has provided nondiscriminatory, cost-based access to unbundled loop-transport combinations (often referred to as "enhanced extended links" or "EELs") throughout density zone 1.

Based on its market experience, WorldCom has reached three major conclusions about its ability to serve small business customers using its own switches and network facilities that serve as the predicates for its business decisions. Each of these market "lessons" are relevant for determining what the switching exception should be.

(1) ***WorldCom can only serve customers located in the geographic markets in which it has deployed a switch and fiber network.*** Under current market conditions, generally it will undertake such deployment only in the top 50 MSAs.

(2) ***Both the geographic-breadth and product-line-breadth of offerings WorldCom can***

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[1] In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98, Third Report and Order and Fourth Further Notice of Proposed Rulemaking, released Nov. 5, 1999.

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make to small business customers using its own switches depend crucially on its ability to use loop and transport facilities as efficiently as the ILECs do. That efficiency is available to WorldCom only if it has unencumbered access to unbundled loop-transport combinations. Put another way, WorldCom is materially impaired in its ability to offer local services to many small business customers using its own switches when its access to EELs is encumbered.

(3) As a result of (2), ***both the size of customers WorldCom is able to serve (in terms of number of lines) when using its own switches and the geographic locations of the customers WorldCom is able to serve (in terms of density zones or some other geographic definition) when using its own switches vary depending on whether requesting carriers have unencumbered access to EELs.*** Hence, both the customer size and the geographic limitation incorporated in the switching exception should vary depending on whether requesting carriers have unencumbered access to EELs.

It is WorldCom's strong preference -- indeed WorldCom's fundamental business policy -- to serve customers with its own facilities wherever it is feasible to do so. This minimizes the extent to which it is dependent on its dominant competitors for key inputs. Moreover, a facilities-based business strategy best allows WorldCom to meet the demand of its multi-locational customers for the same product across geographic locations. WorldCom can be assured of having state-of-the-art technology capable of providing the same state-of-the-art services at all its customer locations.

Despite this strong incentive to deploy its own facilities to the fullest extent possible within its capital constraints, there are some places where WorldCom simply cannot justify such deployment. In addition, even where WorldCom has deployed facilities, there are some sets of customers whom it cannot viably serve with its facilities. This submission explains why WorldCom cannot serve those customers with its own facilities and thus is able to serve those customers only by using UNE-platform.

An overly broad switching exception that denies WorldCom access to UNE-platform where it cannot provide service using its own facilities will result in WorldCom (and other carriers) not serving sets of customers at all. On the other hand, an overly narrow switching exception that gives WorldCom access to UNE-platform where it doesn't need it is unlikely to discourage its facilities build out.

To understand how that plays out in the real world, it is useful to describe how WorldCom deploys its network and offers services. It isn't feasible for WorldCom to duplicate the ILECs' ubiquitous networks. WorldCom neither can nor should duplicate the ILECs' ubiquitous loop and transport grid; nor can or should it deploy as many switches. Since WorldCom does not have captive customers or guaranteed revenues, it deploys its network where it projects traffic will be sufficient to support its plant investment. When WorldCom enters a geographic market, it constructs a fiber ring and deploys a switch in those areas that have a high

concentration of business customers. WorldCom builds out its rings to large office buildings and to a few key ILEC end offices that are the serving wire centers for enough current and potential customers to justify construction of a collocation space to hold equipment to concentrate traffic.

WorldCom tries to serve as many customers as possible using its switches and fiber network, but ***how many and which types of customers it can serve with its switches and network will depend on the ability to efficiently concentrate customer traffic and bring it to its ring.*** This, in turn, depends on the proximity of the customer to WorldCom's network and the type of service the customer seeks (digital or analog). And since WorldCom must rely on ILEC loops and (in the vast majority of cases) transport, this also depends on the price and availability of ILEC loops and transport, whether purchased out of ILEC access tariffs or as UNEs.

In order to be competitive with the ILECs, WorldCom must be able to use its network and the loop and transport elements (including multiplexing) it leases from the ILECs (as special access or as UNEs) as efficiently as they do. Wherever an ILEC uses a network element or combination of elements to provide both local exchange and access services, or to provide integrated products, WorldCom must be able to do the same or it will not be able to enjoy the same scale economies that the ILECs do.

For example, although WorldCom serves many of its customers using only its own network facilities, it also "extends" its geographically limited network through the use of leased T1s to geographic areas that it would otherwise not be able to serve. Thus, WorldCom provides a substantial portion of its major local product offerings for small business customers -- digital trunking and Primary Rate Interface (PRI) services -- over T1 lines leased from the ILECs.[2] The T1s are digital and therefore can be connected to WorldCom's ring without WorldCom having to collocate at the customer's ILEC end office. (By contrast, WorldCom cannot provide analog trunk service to the end user without assuming the cost of placing in its collocation spaces expensive customer terminating equipment used to convert digital signals to analog signals.) Given the rates for T1 services purchased out of ILEC access tariffs, WorldCom is able to serve customers seeking these services who are located as far as 20-25 miles from its fiber ring. Beyond that range, the mileage charges in the interoffice transport portion of the T1 tariffs generally are too high for WorldCom (or other CLECs) to compete with the ILECs. Thus, WorldCom only offers these T1 digital services to customers located in ILEC rate centers that are

[2] T1s are cost justifiable for 12 or more digital trunks. Those trunks, in turn, are used by customers with PBXs to serve 30 or more voice grade lines. PRI (Primary Rate Interface) is the only ISDN service that WorldCom offers business customers. It consists of 23 "B" channels for voice and data and a "D" channel to control signaling. PRI standards require use of at least a T1 level of bandwidth. It is not economically feasible for WorldCom to offer BRI (Basic Rate Interface) ISDN service, which consists of two voice grade channels and one signaling channel.

within approximately 20-25 miles of the WorldCom fiber ring.[3] With rare exception, WorldCom cannot and does not serve customers seeking T1 digital trunks or PRI who are located more than 20-25 miles from its ring.

The discussion above is based on the situation where WorldCom does not have access to EELs because to date these have been available only in Florida. With unencumbered access to EELs, WorldCom expects the 20-25 mile limit would be extended to 30 or 40 miles, depending on the UNE transport rates adopted in the state. If the mileage charge for interoffice transport were set at economic cost, and the ILECs could not deny it access to EELs, WorldCom probably would be able to provide digital trunks and PRI service significantly further out in the MSA.

WorldCom is far more constrained today in its ability to use its own switch facilities to serve small business customers seeking analog lines than to serve small business customers seeking digital trunks. WorldCom cannot simply bring an analog line to its fiber ring, as it can with a T1 where the primary market constraint is the mileage charges for T1 access service. The analog signal must be converted to digital, which requires WorldCom to collocate conversion equipment at the ILEC end office serving the customer. Thus, ***WorldCom is only able to use its own switches to provide analog line service to small business customers who are located in the geographic areas served by the ILEC end offices at which it is collocated -- which are only a very small portion of ILEC end offices.*** Many factors keep WorldCom from collocating at the vast majority of ILEC end offices – most significantly, the straight-forward economic calculus of costs vs. projected revenues, but also the sheer enormity of attempting to collocate in thousands of end offices in a short period of time.

If WorldCom had unencumbered access to EELs for the provision of local analog service, it would be able to use its switches to provide analog service to many customers it cannot currently serve because it is not collocated at the customers' end office. Given its lack of experience with EELs, WorldCom cannot project exactly how much larger a geographic area it could serve. WorldCom still would not be able to serve throughout an MSA, but instead of serving only those customers located in rate centers where it is collocated, it would be able to reach additional customers, perhaps some located as far as 20 miles from its own facilities.

It is important to note that access to EELs would not help WorldCom serve small business customers if that access were encumbered by requirements that WorldCom not "commingle" UNEs with special access services, such as access multiplexers or access DS-3s used as entrance facilities for both local and access traffic. If such constraints were applied, then WorldCom would be denied the ability to exploit the same economies of scale that the ILECs enjoy by efficiently using concentration and transport facilities for both local and access traffic, and instead would be required to deploy separate transport and multiplexing facilities for local

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[3] Typically, this 20-25 mile limit allows WorldCom to offer these digital services to customers located in about 30 rate centers, but the larger MSAs extend far beyond 30 rate centers, so WorldCom is not able to serve customers in sizeable portions of those MSAs.

and access traffic.

Similarly, access to EELs would not help WorldCom meet some of the needs of small business customers if that access were constrained to situations where WorldCom is providing exclusively local (local exchange and originating and terminating access) service, and denied where WorldCom is providing integrated products that include a significant amount of local service that meet customers' needs.

Also, access to EELs would not help WorldCom meet the needs of small business customers if such access were limited to existing combinations, but not available for new loop-transport combinations.

The discussion thus far has addressed WorldCom's ability to serve customers in geographic locations where it has deployed its own network. WorldCom does not serve customers in locations where it does not have its own switching and network facilities, except where it has access to UNE-platform. The prohibitive transport costs associated with hauling traffic to distant switches render provision of such service uneconomic. Thus, it is important to know how WorldCom makes its decision to deploy its own network in a geographic location.

As indicated earlier, WorldCom will only deploy a state-of-the-art network capable of providing the same state-of-the-art services across geographic markets. WorldCom's multi-locational customers demand this. For the quality service its customers require, the typical investment costs for WorldCom's network in a geographic area are $10 to $15 million to install a class 5 local switch and an additional $15 million to build a fiber ring and to collocate equipment in the key ILEC end offices serving the greatest concentration of WorldCom's current or potential customers. Market demand and capital constraints today limit WorldCom's network and switch deployment primarily to the top 50 MSAs. WorldCom has deployed fiber network and switches in more than 40 of the 50 largest MSAs, but only selectively in smaller markets. Beyond the top 50, there may be a few markets with unique characteristics (such as a concentration of WorldCom long distance customers) that can justify the $25 to $30 million needed in network investment, but WorldCom will not be able to provide facilities-based service in most markets outside the largest 50 MSAs. If the switching exception were expanded beyond the top 50 MSAs, in many of those additional markets WorldCom would not be able to provide a competitive local alternative to the ILEC and there may be no other viable alternatives to the ILEC. Nor would access to EELs allow WorldCom to serve markets where it does not have a network.

WorldCom's market experience thus argues for enforcing an unencumbered EEL requirement and maintaining the top 50 MSA parameter in the switching exception. It demonstrates, however, that the two other parameters, as currently incorporated into the exception, are too simplistic. Both the measure of customer size, in terms of lines, and the measure of the geographic boundary within the top 50 MSAs where requesting carriers are not impaired without access to unbundled switching, fail to take into account the key role that

unencumbered access to EELs plays. ***If requesting carriers had truly unencumbered access to EELs, they would be able to use their own switches to serve a fairly broad range of small business customers in the top 50 MSAs and the Commission could maintain the 4 line exception and probably could expand the geographic boundary beyond Access Zones 1 to include all rate centers within 20 miles of the downtown business district. On the other hand, if requesting carrier access to EELs were constrained in the way it is under the Supplemental Order Clarification, then CLECs would be very constrained in their ability to use their own switches to serve small business customers and the Commission should limit the switch exception to customers using T1s, or a 12 to 16 DS-0 equivalent, and to the rate centers in a very narrow geographic area in downtown business locations where multiple CLECs offering a complete array of services for small business customers (not limited to DSL service) are collocated.***

WorldCom agrees with Commission staff that the determination of the appropriate exception to the requirement that ILECs provide unbundled switching should be based on information culled from actual CLEC experience providing local service to small business customers, and is happy to meet with staff to discuss the information provided in this submission.

Sincerely,

Chuck Goldfarb

Chuck Goldfarb
Director, Law and Public Policy

cc. Jake Jennings
Katherine Farroba
Jonathan Reel
Christopher Libertelli
Dorothy Attwood
Jordan Goldstein
Sarah Whitesell
Rebecca Beynon
Kyle Dixon